

SECTION II – SPECIFIC COMPLIANCE
FUND 50 – PROPRIETARY FUNDS

PROPRIETARY FUNDS

Proprietary funds are used to account for district activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a district regardless as to whether the operations include services provided to outside parties that are offset by revenues such as tuition or adult education fees. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Additional guidelines for districts using the internal service fund to account for shared services are outlined *N.J.A.C. 6A:23-2.13*.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. The most common examples of enterprise funds in New Jersey school districts are those established to account for the food services program of the district and latchkey programs. **All the expenses of these operations are accounted for in the funds with any board contribution shown as a transfer to cover deficit in the general fund and as an operating transfer in the enterprise fund.**

Auditor's Note – The Transfer to Cover Deficit included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the enterprise fund. The department has included an edit in the Audsum diskette to identify this discrepancy and recommends completing the Audsum diskette prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund.

GASB 34 Model – There will be little change in the proprietary financial statements resulting from GASB 34. Capital Contributions are **not** reported as a separate component of net assets in the *Statement of Net Assets*, but continue to be reported as such in the funds statements. District staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements.

Districts should use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the district board of education, or to other district boards of education and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities, and are intended to "break even" annually and/or over a period of years. The use of an internal service fund does not provide additional revenue or expenses to the district but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments. Joint transportation agreements where the lead district uses its own employees and buses are accounted for in an internal service fund. Joint transportation agreements where the lead district contracts with a vendor are accounted for in the general fund.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead district would also be accounted for in an internal service fund in the records of the lead district. Each of the "sharing" districts, including the employing lead district, should reflect their agreed-upon portion of the costs in the general fund. For the employing district, that cost would be budgeted as a salary expenditure. The "sharing" districts would account for the payments made to the lead district as a contracted service

under the appropriate function. If the shared employees have employment contracts with each of the districts involved, each district's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the districts involved to establish an internal service fund.

- The district board of education providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the internal service fund in the applicable line item account for the goods or services received.
- Sales and purchases of goods and services for a price approximating their external exchange value should be reported as revenues ("Services Provided to Other Funds"). The total user charges should approximate the total costs of the internal service fund.

Local school district auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular, special, or adult education, should be accounted for in the general fund. The one exception would be those districts which contract with the Department of Education to run its Regional Day Schools.

Food Service – Enterprise Fund

Boards of Education may contract with food service management companies (FSMC) to equip, supply and operate cafeterias without profit to the district pursuant to *N.J.S.A. 18A:33-3*. Every contract for the services of a food service management company should meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations pursuant to *N.J.S.A. 18A:18A-42.1*.

All districts rebidding their FSMC Contract for school year 2001-2002, must rebid their new contract pursuant to the NEW Public School Contracts Law, *N.J.S.A. 18A:18A-1* et seq. amended P.L. 1999, c.440. All other districts not rebidding for School year 2001-2002, will finish their contract duration under the specifics of *N.J.S.A. 18A:18A-42.1* until the life of the current contract cycle ends (minimum one year/ maximum two years). This is for all FSMC contracts bid PRIOR to the implementation of the NEW Public School Contracts Law.

The most widely used contract method in New Jersey is referred to by the Accounting Guide for Government Contracts as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board is liable for the reimbursement of all costs incurred. Regardless of the contract method, the local board of education is considered the School Food Authority. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the School Food Authority.

As School Food Authorities, daily cash sales and State and Federal reimbursements are school moneys and subject to the State's school laws. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties, but they are not permitted under state law to administer or hold school funds.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from daily cash sales and State and Federal reimbursements must be under the control of the treasurer of school moneys in any bank or banking institution of this state designated by the board of education as a depository of school moneys. Such funds may be deposited in the Board's general operating account. A separate food service account is not required. (*N.J.S.A. 18A:17-34*)

Receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records in accordance with The Uniform Minimum Chart of Accounts (Handbook 2R2).

When the board budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the general fund.

2. The board may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (*N.J.S.A. 18A:19-1, 2, 4 and 4.1*)
3. Loans or advances from the board to a food service management company are prohibited. All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A. 18A:19-3*)
4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments which are not made within the negotiated dates.
5. The food service management company must provide itemized claims for services and goods to the board secretary for reimbursement.
 - a) The food service management company should process payroll data in such a way that the board secretary can reimburse it in time for payroll checks to be issued. A one week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.
 - b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include either a copy of the company's payroll for those employees providing service to the district or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the board secretary and for the annual audit.

When the food service management company purchases specifically for the school district, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (Sample 1 on page II-50.5). If the food service management company purchases food in bulk for a number of districts, it may use the above method allocating invoice amounts between districts based on the percentage of each district's student enrollment (or participation) to the total enrollment for all schools (Sample 2 in Section II, Chapter 50). It

may also use a per meal cost calculation based on the total amount of the invoices divided by the total meals served to all districts. Each district's pro-rata share of the costs would be the per meal cost multiplied by the meals served in each district (Sample 3 in Section II, Chapter 50).

When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the board secretary and for the annual audit.

6. The board of education and the food service management company should work closely to minimize the time of reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest paid is an allowable cost of the contract in such situations.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that all books and records of the food service management company pertaining to the school food service program shall remain the property of the school district.

Auditors must include appropriate comments and recommendation in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.

SAS #70 Reports

In accordance with SAS #70, as amended by SAS #88, school district auditors may evaluate the internal controls of a food service management company by relying upon the opinions of a "service auditor" of the food service management company's internal control system. To that end, school districts must only contract with food service management companies that can provide an audit opinion on said company's system of internal control. Beginning in 1994-95, all food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

Workman's Compensation – Internal Service Fund

For the years prior to the implementation of GAAP, the audit program reflected the activity related to self-insurance for workmen's compensation and unemployment compensation in the trust and agency funds. The sample CAFR issued by the department does not include examples of the treatment of these forms of self-insurance under GAAP. In August 1994, a hotline was issued directing districts and public school accountants toward two Statements of the Governmental Accounting Standards Board (GASB 10 and 17) for guidance regarding the proper accounting treatment for their district. Under the GASBs, expendable trusts could no longer be used to account for self-insured workmen's compensation funds where there is no transfer of risk, but instead must be accounted for in either the general fund or an internal service fund.

Date Issued 5/02

SAMPLE 1

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the schools of the New City School District during the month of September 200X. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
06932	8/31/0X	Bakeland	\$2,398.61
12555X	9/02/0X	Murray's Meats	6,779.38
431182	9/03/0X	Polly's Produce	796.54
218812	9/07/0X	Dan's Dairy	877.32
06988	9/07/0X	Bakeland	531.89
12682X	9/07/0X	Murray's Meats	153.90
431906	9/13/0X	Polly's Produce	591.83
219601	9/24/0X	Dan's Dairy	877.32
Total			<u><u>\$13,006.79</u></u>

Please remit the above amount by November 15, 200X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 2 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of the New City school district's pro-rata share of costs related to the shared food services program provided by our company. The allocation is based on the number of students participating at each school. See the attached cost allocation detail supporting the amount charged.

For the month of September 200X	\$3,107.21
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Please remit the above amount by November 15, 200X. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 2 (2 of 2)

NEW CITY SCHOOL DISTRICT FOOD SERVICES ALLOCATION																		
<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>New City</u>	<u>Upper</u>	<u>Lower</u>	<u>Middle</u>	<u>Total</u>											
			19.7%	14.1%	27.8%	38.4%	100.0%											
6932	8/31/200X	Bakeland	\$208.09	\$148.94	\$293.65	\$405.61	\$1,056.29											
12555X	9/2/200X	Murray's Meats	689.23	493.31	972.62	1,343.48	3,498.64											
431182	9/3/200X	Polly's Produce	176.45	126.29	249.00	343.94	895.68											
218812	9/7/200X	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24											
6988	9/7/200X	Bakeland	118.77	85.01	167.61	231.51	602.90											
12682X	9/7/200X	Murray's Meats	692.86	495.91	977.75	1,350.55	3,517.07											
431906	9/13/200X	Polly's Produce	112.21	80.31	158.34	218.71	569.57											
219601	7/13/200X	Dan's Dairy	477.38	341.68	673.66	930.52	2,423.24											
		Total	\$3,107.21	\$2,223.95	\$4,384.80	\$6,056.67	\$15,772.63											

SAMPLE 3 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of the New City school district's pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 200X	
1,598 meals @ \$2.45 meal	\$3,910.60

Please remit the above amount by November 15, 200X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 3 (2 of 2)

NEW CITY SCHOOL DISTRICT FOOD SERVICES ALLOCATION					
			Invoice		
<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>		
6932	8/31/200X	Bakeland	\$2,398.61		
12555X	9/2/200X	Murray's Meats	6,779.38		
431182	9/3/200X	Polly's Produce	796.54		
218812	9/7/200X	Dan's Dairy	877.32		
6988	9/7/200X	Bakeland	531.89		
12682X	9/7/200X	Murray's Meats	153.90		
431906	9/13/200X	Polly's Produce	591.83		
219601	7/13/200X	Dan's Dairy	877.32		
		Total	\$13,006.79		
		<u>School District</u>	<u># of Meals</u>	<u>Price/meal</u>	<u>Amount</u>
		New City	1,598	\$2.45	\$3,910.60
		Upper	1,299	\$2.45	\$3,178.90
		Lower	1,243	\$2.45	\$3,041.85
		Middle	1,175	\$2.45	\$2,875.44
		Total	5,315	\$2.45	\$13,006.79

Child Nutrition Program Requirements

Please refer to the sample format for School Food Service Fund Exhibits F-1, F-2 and F-3 in Financial Reporting for New Jersey School Districts, A Sample Comprehensive Annual Financial Report, The CAFR for required financial statements. **GASB 34 Model** – also refer to the sample **Proprietary Fund** statements (Exhibits B-4, B-5, and B- 6) on the NJDOE web site: <http://www.state.nj.us/njded/finance/fp/gasb34/>.

School Food Service Fund

Report on the condition of the financial transactions and statistical records of the School Food Service Fund. This should include a review of monthly reimbursement vouchers, meal count records, and eligibility applications. Determine whether there are controls providing reasonable assurance that all meals reported to the state agency for reimbursement are based on accurate counts and are served to eligible children.

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.

- a) ELIGIBILITY APPLICATIONS - Review eligibility applications to evaluate completeness of required information and verify eligibility determination. Any incomplete free or reduced price applications should be given to the determining official for completion. Free applications that are not available or incorrectly determined must also be cited as an exception under Demonstrably Effective Program Aid, Early Childhood Program Aid, and Instructional Supplement Aid where applicable.

Applications may also have been determined through the Direct Certification Process. Please refer to June 2001 Memo, "Direct Certification for Free Meal/Free Milk Benefits for School Year 2001-2002."

Schools participating in Provision 1, 2 or 3 are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the April 23, 2001 Memo, "Application Process for Provisions 1, 2 and 3".

- b) MEAL COUNT RECORDS - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement vouchers. Edit Check Worksheet(s) must be completed for every reimbursement voucher submitted and the required comparisons made before completing the reimbursement voucher. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement.

Unsupported reimbursement must be cited as a finding of noncompliance and a financial assessment identified on the Schedule of Meal Count Activity (Overclaim/Underclaim). Provide pertinent detail, i.e. school, month.

2. Verification Regulations issued by the United States Department of Agriculture require pricing sponsors of the National School Lunch and School Breakfast Programs to verify a minimum number of approved applications on file as of October 31 of each school year. Sample selection and verification may begin earlier based on projections done by school officials. Each sponsor must select one of the two following methods to satisfy the verification requirements:

- a) RANDOM SAMPLE - The lesser of 3 percent or 3,000 of approved applications selected randomly; **OR**

- b) FOCUSED SAMPLE - The lesser of 1 percent or 1,000 of total approved applications selected from nonfood stamp households with income near the eligibility levels, plus the lesser of .5 percent or 500 of approved applications which substituted a food stamp household or an AFDC case number for income information. Verification of food stamp households consists of confirming current receipt of food stamp benefits. All verification activity must be completed by December 15 of each school year. The auditor's review of eligibility applications should include a review of the verification file to ensure that this process was established. It is not necessary for the auditor to review the contents of the verification file.
3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.
4. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures for the School Food Authority's nonprofit school food service, the State Agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:15)
- Net cash resources are defined as all monies, that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include but are not limited to cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities.
5. The auditor should comment on whether Food Distribution Program (formally U.S.D.A.) commodities were received. If the school district is utilizing a vendor to provide meals, review evidence that the market value of Food Distribution Program donated commodities was credited on monthly invoice statements.
6. Auditors should verify that financial arrangements and other provisions in the Food Service Management contract have been complied with; if not, cite exception.
7. The United States Department of Agriculture does not permit us to pay increases in reimbursement for revised vouchers received after the 60 days without proper verification. Therefore, revised vouchers that result in additional payment will no longer be processed by this office after the 60-day timeframe. However, payment can be considered if the underclaim is verified in an audit or administrative review. Auditors are instructed to verify any underpayments as a result of late revisions in the audit report under the Schedule of Findings and Questioned Costs. Please note that such payment is subject to approval.
8. The following memorandums and attachments are on file at local school district offices to be referenced by the auditor:
- a) August 2001 - Reimbursement Rates for Child Nutrition Programs/Maximum Meal and Milk Prices
 - b) September 20, 2001 - Verification Workshop Schedule and Sample Forms
 - c) September 2001 (2) – Reimbursement Voucher Package 2001-2002: Changes, Instructions, Rates and Timely Submission of Reimbursement Vouchers.

- d) January 30, 2001 - Securing Base Year Food Service Management Company (FSMC) Contracts for School Year 200102

Attachments

Response and Projected Operating Statement (Form #23)
Bid/Proposal Comparison Sheet (Form #24)
Appendix B-FSMC Contract Required Language Checklist (Form #17)
Base Year Contract Checklist (Form #15)
Suggested Timeframes for the FSMC Quotation/Bid Process (Form #36)
Food Service Data (Handout #147)
Suggested Guidance for Soliciting Proposals (Handout #148)
Cost Responsibility Summary (Form #149)
Reference Materials Relating to FSMC (Handout #34)
State Agency Approval of FSMC Contracts and Addenda (Handout # 137)

- e) March 1, 2001 – SFA’s Renewing FSMC Contracts for 2002

1 - Early Approval of Food Service Management Company (FSMC) Addendum and Registered Food Service Management Company Directory

2 - Registered FSMC Directory

Attachment- School Food Authority/Food Service Management Company Renewal Addendum Checklist (Form 16)

March 1, 2001 – All SFAs with Self-Operated Food Service Programs Considering Employing a FSMC for School Year 2001-02

March 15, 2001 – SFAs Awarding Base Year FSMC Contracts for FY 2002

1- Registered Food Service Management Company (FSMC) Directory

2 - Early Approval of Food Service Management Company (FSMC) Contracts

– Attachment - School Food Authority/Food service Management Company Base Year Contract Checklist (Form 15)

- f) April 23, 2001 – Application Process for Provisions 1, 2 and 3
g) June 2001 - Direct Certification for Free Meal/Free Milk Benefits for School Year 2001-2002
h) Fiscal Year 2002 Income Eligibility Guidelines
i) Maximum Prices for Student Meals/Snacks and Variable Pricing for School Year 2001-2002
j) May 14, 2001 - Program Extensions for the Summer 2001 Program Changes to be Effective Beginning 9/1/2001

JULY 1, 2001 - JUNE 30, 2002

REIMBURSEMENT RATE BREAKDOWN

NATIONAL SCHOOL LUNCH RATES

CUT RATE			
	FEDERAL	STATE	TOTAL
FREE	2.09	0.10	\$ 2.19
RED	1.69	0.10	\$ 1.79
PAID	.20	0.04	\$ 0.24

REGULAR RATE			
	FEDERAL	STATE	TOTAL
FREE	2.11	0.10	\$ 2.21
RED	1.71	0.10	\$ 1.81
PAID	0.22	0.04	\$ 0.26

SCHOOL BREAKFAST PROGRAM

REGULAR RATES			
	FEDERAL	STATE	TOTAL
FREE	1.15	0.10	\$ 1.25
RED	0.85	0.10	\$ 0.95
PAID	0.21	0.10	\$ 0.31

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.37	0.10	\$ 1.47
REDUCED	1.07	0.10	\$ 1.17
PAID	0.21	0.10	\$ 0.31

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE	0.57
FREE	0.57
REDUCED	0.28
PAID	0.05

SPECIAL MILK PROGRAM

FREE	Average cost per half pint
PAID	0.145

6/28/01